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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

TOM FORESE - Chairman
BOB BURNS
ANDY TOBIN
BOYD DUNN
JUSTIN OLSON

In the matter of:

WMF Management, LLC, a Delaware
limited liability company,

Woodbridge Group of Companies, LLC, a
Delaware limited liability company,

Woodbridge Mortgage Investment Fund 1,
LLC, a Delaware limited liability company,

Woodbridge Mortgage Investment Fund 2,
LLC, a Delaware limited liability company,

Woodbridge Mortgage Investment Fund 3,
LLC, a Delaware limited liability company,

Woodbridge Mortgage Investment Fund
3A, LLC, a Delaware limited liability
company,

Robert H. Shapiro, an unmarried man,

Robert W. Carfagno, Senior. (CRD no.
2387162), and Debra L. Carfagno, husband
and wife,

AIO Financial LLC, an Arizona limited
liability company,

William M. Holliday (CRD no. 4930333),
and Guadalupe A. Holliday, husband and
wife,

Respondents.

DOCKET NO. S-20988A-16-0354

DECISION NO. 76962

**ORDER TO CEASE AND DESIST, ORDER
FOR RESTITUTION, ORDER FOR
ADMINISTRATIVE PENALTIES, AND
CONSENT TO SAME
BY: RESPONDENT ROBERT H. SHAPIRO**

Arizona Corporation Commission

DOCKETED

NOV 27 2018

DOCKETED BY

Respondent Robert H. Shapiro ("Respondent") elects to permanently waive any right to a
hearing and appeal under Articles 11 and 12 of the Securities Act of Arizona, A.R.S. § 44-1801 et

1 seq. ("Securities Act") with respect to this Order To Cease And Desist, Order for Restitution, Order
2 for Administrative Penalties, and Consent to Same ("Order"). Respondent admits the jurisdiction of
3 the Arizona Corporation Commission ("Commission"); neither admits nor denies the Findings of
4 Fact and Conclusions of Law contained in this Order; and consents to the entry of this Order by the
5 Commission.

6 **I.**

7 **FINDINGS OF FACT**

8 1. Since at least August 12, 2013, Robert H. Shapiro has been a married man and a
9 resident of the state of California.

10 2. WMF Management, LLC ("WMF Management") is a limited liability company
11 organized under the laws of the state of Delaware on June 25, 2012.

12 3. Woodbridge Group of Companies, LLC ("Woodbridge Group") is a limited liability
13 company organized under the laws of the state of Delaware on December 11, 2014.

14 4. Woodbridge Mortgage Investment Fund 1, LLC ("Woodbridge Fund 1") is a
15 limited liability company organized under the laws of the state of Delaware on June 25, 2012.

16 5. Woodbridge Mortgage Investment Fund 2, LLC ("Woodbridge Fund 2") is a
17 limited liability company organized under the laws of the state of Delaware on December 6, 2013.

18 6. Woodbridge Mortgage Investment Fund 3, LLC ("Woodbridge Fund 3") is a
19 limited liability company organized under the laws of the state of Delaware on September 9, 2014.

20 7. Woodbridge Mortgage Investment Fund 3A, LLC ("Woodbridge Fund 3A") is a
21 limited liability company organized under the laws of the state of Delaware on July 28, 2015.

22 8. Since at least January 15, 2014, Respondent has been the managing member of WMF
23 Management. WMF Management has been the managing member of Woodbridge Fund 1 and
24 Woodbridge Fund 2 since at least January 15, 2014. WMF Management has been the managing
25 member of Woodbridge Fund 3 since approximately September 9, 2014. WMF Management has
26 been the managing member of Woodbridge Fund 3A since approximately July 28, 2015.

1 9. Woodbridge Fund 1, Woodbridge Fund 2, Woodbridge Fund 3, and Woodbridge
2 Fund 3A may be referred to collectively as "the Woodbridge Funds." WMF Management,
3 Woodbridge Group, and the Woodbridge Funds may be referred to collectively as "Woodbridge."

4 10. The Woodbridge Funds were commercial lenders that made hard-money loans
5 secured by commercial property. The Woodbridge Funds raised money from investors to help fund
6 the hard-money loans. Woodbridge referred to these investments as First Position Commercial
7 Mortgages ("FPCM"). Investors did not have any role other than providing money.

8 11. Since at least August 12, 2013, Arizona investors and non-Arizona investors solicited
9 by an Arizona salesperson (collectively, "Investors") invested in FPCMs with a total of 635 separate
10 investments. Together these Investors invested a total of \$38,428,877.42 in FPCMs. The Woodbridge
11 Funds have repaid \$34,845,983.42 to these Investors.

12 12. An FPCM consists of a promissory note from a Woodbridge Fund, a loan agreement,
13 and a non-exclusive assignment of the Woodbridge Fund's security interest in the mortgage for the
14 underlying hard-money loan. The Woodbridge Funds pool money from multiple investors for each
15 hard-money loan. The Woodbridge Funds' advertising materials state that the Woodbridge Funds are
16 obligated to make payments to FPCM investors even if the hard-money borrower defaults. If a
17 Woodbridge Fund defaults on its promissory note to an investor, the FPCM assignment documents
18 require it to pay to the investor any payments the Woodbridge Fund receives from the underlying
19 hard-money borrower.

20 13. The FPCMs are securities in the form of notes, investment contracts, and real property
21 investment contracts.

22 14. FPCMs involve risks that are typically associated with real estate investments. An
23 investor might need to sue the Woodbridge Fund or the third party hard-money borrower to recover
24 the investment. The value of the real estate collateral for the hard-money loan might be too low due
25 to depreciation or the Woodbridge Funds' failure to properly value it. If the real estate does not
26 adequately collateralize the loan, the Woodbridge Funds may fail to maintain enough liquid cash

1 reserve to continue making payments to the investor. And the investor's security interest in the real
2 estate collateral could be invalidated by the Woodbridge Funds' failure to properly perfect the
3 security interest (collectively "Risks").

4 15. On May 4, 2015, Woodbridge Fund 1, Woodbridge Fund 2, and Woodbridge Fund 3
5 consented to an order by the Massachusetts Securities Division ("Massachusetts Consent"). The
6 Massachusetts Consent found that the FPCMs are securities and that Woodbridge Fund 1,
7 Woodbridge Fund 2, and Woodbridge Fund 3 had violated the Massachusetts Uniform Securities Act
8 by selling unregistered securities. The Massachusetts Consent also required them to offer rescission
9 to Massachusetts investors and to pay a civil penalty of \$250,000.

10 16. On July 17, 2015, the Texas State Securities Board issued an emergency cease and
11 desist order ("Texas Order") against Woodbridge Fund 3, Respondent, and other parties that ordered
12 them to stop engaging in fraud in connection with the sale of securities in Texas. The Texas Order
13 alleged that the FPCMs are securities and alleged that Woodbridge Fund 3 and Respondent were
14 engaging in fraud in connection with the sale of securities by failing to disclose the Massachusetts
15 Consent and various investment risks to potential investors.

16 17. On March 18, 2016, Woodbridge Fund 3 and Shapiro consented to an order by the
17 Texas State Securities Board ("Texas Consent"). The Texas Consent found that Shapiro was the
18 controlling person of Woodbridge Fund 3, concluded that the FPCMs were securities, and concluded
19 that Woodbridge Fund 3 and Shapiro violated the Texas Securities Act by offering unregistered
20 securities. Shapiro consented to the order on behalf of Woodbridge Fund 3 as its controlling person.

21 18. The Woodbridge Funds omitted to tell at least twenty-eight Investors before they
22 invested about Risks of the FPCM investments, the Massachusetts Consent, and/or the Texas Order
23 or Texas Consent.

24 19. Woodbridge Group and Woodbridge Fund 3A misrepresented to at least two other
25 Arizona FPCM investors before they invested that, "Woodbridge and its predecessors have never
26

1 been found to have violated any securities law.” In fact, the Massachusetts Consent found that three
2 of the Woodbridge Funds had violated the Massachusetts Uniform Securities Act.

3 **II.**

4 **CONCLUSIONS OF LAW**

5 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
6 Arizona Constitution and the Securities Act.

7 2. The Woodbridge Funds offered or sold securities within or from Arizona, within the
8 meaning of A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

9 3. The Woodbridge Funds violated A.R.S. § 44-1991 by (a) employing a device, scheme,
10 or artifice to defraud, (b) making untrue statements or misleading omissions of material facts, or (c)
11 engaging in transactions, practices, or courses of business that operate or would operate as a fraud or
12 deceit.

13 4. Respondent directly or indirectly controlled the Woodbridge Funds, within the
14 meaning of A.R.S. § 44-1999. Therefore, Respondent is jointly and severally liable under A.R.S. §
15 44-1999 to the same extent as the Woodbridge Funds for any violations of A.R.S. § 44-1991.

16 5. Respondent’s conduct is grounds for a cease and desist order pursuant to A.R.S. § 44-
17 2032.

18 6. Respondent’s conduct is grounds for an order of restitution pursuant to A.R.S. § 44-
19 2032.

20 7. Respondent’s conduct is grounds for administrative penalties under A.R.S. § 44-2036.

21 **III.**

22 **ORDER**

23 THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, and Respondent’s
24 consent to the entry of this Order, attached and incorporated by reference, the Commission finds that
25 the following relief is appropriate, in the public interest, and necessary for the protection of investors:
26

1 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that Respondent, and any of Respondent's
2 agents, employees, successors and assigns, permanently cease and desist from violating the Securities
3 Act.

4 IT IS FURTHER ORDERED that Respondent comply with the attached Consent to Entry of
5 Order.

6 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032 Respondent shall, jointly and
7 severally with all respondents against whom orders are entered under Docket No. S-20988A-16-
8 0354, pay restitution to the Commission in the principal amount of \$3,582,894 as a result of the
9 conduct set forth in the Findings of Fact and Conclusions of Law. Payment is due in full on the date
10 of this Order. Payment shall be made to the "State of Arizona" to be placed in an interest-bearing
11 account controlled by the Commission. Any principal amount outstanding shall accrue interest at
12 the rate of ten percent per annum from the date of purchase until the date of this order.

13 IT IS FURTHER ORDERED that the restitution ordered in the preceding paragraph will
14 accrue interest, as of the date of the Order, at the rate of the lesser of (i) ten percent per annum or (ii)
15 at a rate per annum that is equal to one per cent plus the prime rate as published by the board of
16 governors of the federal reserve system in statistical release H. 15 or any publication that may
17 supersede it on the date that the judgment is entered.

18 The Commission shall disburse the funds on a pro-rata basis to investors shown on the records
19 of the Commission. Any restitution funds that the Commission cannot disburse to an investor because
20 the investor is deceased or an entity which invested is dissolved, shall be disbursed on a pro-rata basis
21 to the remaining investors shown on the records of the Commission. Any remaining funds that the
22 Commission determines it is unable to or cannot feasibly disburse shall be transferred to the general
23 fund of the state of Arizona.

24 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that Respondent shall pay an
25 administrative penalty in the amount of \$150,000 as a result of the conduct set forth in the Findings
26

1 of Fact and Conclusions of Law. Payment is due in full on the date of this Order. Payment shall be
2 made to the "State of Arizona." Any amount outstanding shall accrue interest as allowed by law.

3 IT IS FURTHER ORDERED that payments received by the state of Arizona shall first be
4 applied to the restitution obligation. Upon payment in full of the restitution obligation, payments
5 shall be applied to the penalty obligation.

6 For purposes of this Order, a bankruptcy filing by Respondent shall be an act of default. If
7 Respondent does not comply with this Order, any outstanding balance may be deemed in default and
8 shall be immediately due and payable.

9 IT IS FURTHER ORDERED, that Respondent will not be considered in default while he
10 remains subject to the asset freeze terms ordered on December 20, 2017 ("Asset Freeze Order"), in
11 United States District Court, Southern District of Florida, Case No. 17-24624 ("Case No. 17-24624"),
12 however nothing in this Order prevents Respondent from paying the restitution and penalty
13 obligations to the extent that he is able while subject to the Asset Freeze Order.

14 IT IS FURTHER ORDERED, that Respondent will inform the Arizona Corporation
15 Commission, Securities Division in writing within 30 days of any order in Case No. 17-24624
16 relating to the Asset Freeze Order.

17 IT IS FURTHER ORDERED, that if Respondent fails to comply with this order, the
18 Commission may bring further legal proceedings against Respondent, including application to the
19 superior court for an order of contempt.

20 IT IS FURTHER ORDERED, that no finding of fact or conclusion of law contained in this
21 Order shall be deemed binding against any respondent under this Docket Number who has not
22 consented to the entry of this Order.

23 IT IS FURTHER ORDERED that this Order shall become effective immediately.
24
25
26

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

Pro. Forese

CHAIRMAN FORESE

[Signature]

COMMISSIONER DUNN

[Signature]

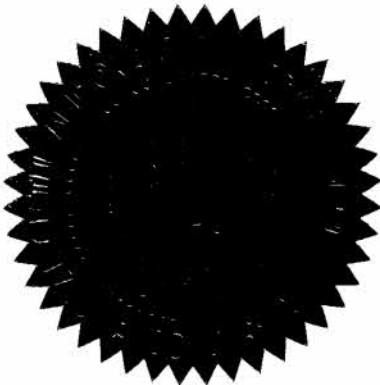
COMMISSIONER TOBIN

[Signature]

COMMISSIONER OLSON

[Signature]

COMMISSIONER BURNS



IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 27 day of November 2018.

[Signature]

MATTHEW J. NEUBERT
INTERIM EXECUTIVE DIRECTOR

DISSENT

DISSENT

This document is available in alternative formats by contacting Kacie Cannon, ADA Coordinator, voice phone number (602) 542-3931, e-mail kcannon@azcc.gov.

(PSK)

CONSENT TO ENTRY OF ORDER

1
2 1. Respondent Robert H. Shapiro ("Respondent") admits the jurisdiction of the
3 Commission over the subject matter of this proceeding. Respondent acknowledges that Respondent
4 has been fully advised of Respondent's right to a hearing to present evidence and call witnesses, and
5 Respondent knowingly and voluntarily waives any and all rights to a hearing before the Commission
6 and all other rights otherwise available under Article 11 of the Securities Act and Title 14 of the
7 Arizona Administrative Code. Respondent acknowledges that this Order To Cease And Desist, Order
8 for Restitution, Order for Administrative Penalties, and Consent to Same ("Order") constitutes a valid
9 final order of the Commission.

10 2. Respondent knowingly and voluntarily waives any right under Article 12 of the
11 Securities Act to judicial review by any court by way of suit, appeal, or extraordinary relief resulting
12 from the entry of this Order.

13 3. Respondent acknowledges and agrees that this Order is entered into freely and
14 voluntarily and that no promise was made or coercion used to induce such entry.

15 4. Respondent has been represented by an attorney in this matter, Respondent has
16 reviewed this order with his attorney, Dennis Doss of Doss Law, and understands all terms it contains.

17 5. Respondent neither admits nor denies the Findings of Fact and Conclusions of Law
18 contained in this Order. Respondent agrees that Respondent shall not contest the validity of the
19 Findings of Fact and Conclusions of Law contained in this Order in any present or future proceeding
20 in which the Commission is a party.

21 6. Respondent further agrees that he shall not deny or contest the Findings of Fact and
22 Conclusions of Law contained in this Order in any present or future: (a) bankruptcy proceeding, or
23 (b) non-criminal proceeding in which the Commission is a party (collectively, "proceeding(s)"). He
24 further agrees that in any such proceedings, the Findings of Fact and Conclusions of Law contained
25 in this Order may be taken as true and correct and that this Order shall collaterally estop him from
26 re-litigating with the Commission or any other state agency, in any forum, the accuracy of the

1 Findings of Fact and Conclusions of Law contained in this Order. Respondent further agrees that in
2 any bankruptcy proceeding, pursuant to 11 U.S.C. § 523(a)(19), the following circumstances exist:

3 A. The obligations incurred as a result of this Order are a result of the conduct set forth
4 in the Findings of Fact and Conclusions of Law in the Order and are for the violation of Arizona
5 state securities laws, pursuant to 11 U.S.C. § 523(a)(19)(A)(i);

6 B. This Order constitutes a judgment, order, consent order, or decree entered in a state
7 proceeding pursuant to 11 U.S.C. § 523(a)(19)(B)(i), a settlement agreement entered into by
8 Respondent pursuant to 11 U.S.C. § 523(a)(19)(B)(ii), and a court order for damages, fine, penalty,
9 citation, restitution payment, disgorgement payment, attorney fee, cost or other payment owed by
10 Respondent pursuant to 11 U.S.C. § 523(a)(19)(B)(iii).

11 7. By consenting to the entry of this Order, Respondent agrees not to take any action or
12 to make, or permit to be made, any public statement denying, directly or indirectly, any Finding of
13 Fact or Conclusion of Law in this Order or creating the impression that this Order is without factual
14 basis.

15 8. While this Order settles this administrative matter between Respondent and the
16 Commission, Respondent understands that this Order does not preclude the Commission from
17 instituting other administrative or civil proceedings based on violations that are not addressed by this
18 Order.

19 9. Respondent understands that this Order does not preclude the Commission from
20 referring this matter to any governmental agency for administrative, civil, or criminal proceedings
21 that may be related to the matters addressed by this Order.

22 10. Respondent understands that this Order does not preclude any other agency or officer
23 of the state of Arizona or its subdivisions from instituting administrative, civil, or criminal
24 proceedings that may be related to matters addressed by this Order.

1 11. Respondent agrees that Respondent will not apply to the state of Arizona for
2 registration as a securities dealer or salesman or for licensure as investment adviser or investment
3 adviser representative until such time as all restitution and penalties under this Order are paid in full.

4 12. Respondent agrees that Respondent will not exercise any control over any entity that
5 offers or sells securities or provides investment advisory services within or from Arizona until such
6 time as all restitution and penalties under this Order are paid in full.

7 13. Respondent agrees that he will inform the Arizona Corporation Commission,
8 Securities Division in writing within 30 days of any order in United States District Court, Southern
9 District of Florida, Case No. 17-24624 relating to the asset freeze terms ordered in that case on
10 December 20, 2017. Respondent further agrees that if he fails to provide such notice within 30 days
11 of such order, he will be in contempt of this Order.

12 14. Respondent agrees that the Arizona Corporation Commission shall have the right to
13 transcript this Order into a judgment upon the issuance of this Order.

14 15. Respondent consents to the entry of this Order and agrees to be fully bound by its
15 terms and conditions.

16 16. Respondent acknowledges and understands that if Respondent fails to comply with
17 the provisions of the order and this consent, the Commission may bring further legal proceedings
18 against Respondent, including application to the superior court for an order of contempt.

19 17. Respondent understands that default shall render Respondent liable to the
20 Commission for its costs of collection, including reasonable attorneys' fees and interest at the
21 maximum legal rate.

22 18. Respondent agrees and understands that if Respondent fails to make any payment as
23 required in the Order, any outstanding balance shall be in default and shall be immediately due and
24 payable without notice or demand. Respondent agrees and understands that acceptance of any partial
25 or late payment by the Commission is not a waiver of default by the Commission.
26

1 A notary public or other officer completing this
2 certificate verifies only the identity of the individual
3 who signed the document to which this certificate
4 is attached, and not the truthfulness, accuracy, or
5 validity of that document.

Robert H. Shapiro

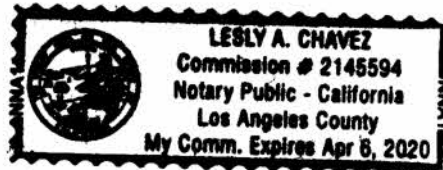
6 STATE OF *California*
7 County of *Los Angeles*) ss

8 SUBSCRIBED AND SWORN TO BEFORE me this *20th* day of *August*.

9 *[Signature]*
NOTARY PUBLIC

10 My commission expires:

11 *04-06-20*



SERVICE LIST FOR: WMF MANAGEMENT, LLC ET AL.

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